

Report
of the
Examination of
American Dental Plan of Wisconsin, Inc.
Madison, Wisconsin
As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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December 20, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of the
affairs and financial condition of:

AMERICAN DENTAL PLAN OF WISCONSIN, INC.
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of American Dental Plan of Wisconsin, Inc. (the LSHO and ADP) was conducted in 1996 as of December 31, 1995. The current examination covered the intervening period ending December 31, 2000, and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the LSHO's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Growth of the LSHO
- Financial Statements
- Accounts and Records
- Data Processing
- Enrollee Complaint Procedure
- Underwriting

Emphasis was placed on the audit of those areas of the LSHO's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the LSHO to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the LSHO's operations is contained in the examination work papers.

II. HISTORY AND PLAN OF OPERATION

The American Dental Plan of Wisconsin, Inc. can be described as a for-profit individual practice association (IPA), model limited service health organization (LSHO) insurer. A LSHO insurer is defined by s. 609.01 (3), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the IPA model, the LSHO provides care through contracts with otherwise independent physicians operating out of their separate offices. LSHOs compete with traditional fee-for-service health care delivery.

The LSHO was incorporated under ch. 611, Wis. Stat., on November 23, 1993, and commenced business March 1, 1994. The start-up costs of the corporation were funded through the subscription of ADP stock by certain dental service corporations and individual dentists who are also providers for ADP. Stock proceeds totaled \$99,000 (\$1,000 per share) at year-end 2001. The ninety-nine outstanding shares of stock are owned by 63 different dental providers.

ADP provides subscriber-group member enrollees with covered dental services through contracts with 95 dentists. An enrollee designates one of the ADP dentists to provide the enrollee's dental care. The dentist agrees to provide covered dental benefits in exchange for the monthly capitation amount paid to the dentist by ADP for each assigned enrollee. Separate capitation amounts are set for general dentistry, periodontics, orthodontics, endodontics, and oral surgery.

On January 21, 1994, shortly after incorporation, ADP assumed all of Professional Dental Plan Inc's. (PDP) 187 group policies except for the Dean Health Plan, Inc. (DeanCare) contract. ADP has dental service agreements with 42 groups as of the date of this examination. Dental services are rendered by contracting dental providers located in the Wisconsin counties of Columbia, Dane, Dodge, Grant, Iowa, Jefferson, Marquette, Richland, Rock, Sauk, Waukesha and Walworth. Dental providers enter into a Dentist or Corporate Participating Agreement with ADP, governing services provided to general commercial groups.

Dentists and Corporate Participating Agreements have an initial one-year term on a calendar-year basis. The contracts automatically renew for successive one-year terms unless written notice of nonrenewal is given by either party at least 180 days prior to the renewal date.

ADP can terminate this agreement immediately if cause exists for the termination of the dentist.

The provider contracts contain the following hold-harmless provision:

Provider agrees to accept the fees and compensation specified in this Section III as full compensation for Covered Dental Services provided to Enrollees and agrees not to bill Enrollees for Covered Dental Services, except any applicable deductibles and copayments. Provider further agrees that in no event, including but not limited to, nonpayment by ADP, the insolvency of ADP, or breach of of this Agreement by ADP, shall Provider bill, charge, collect a deposit from, seek compensation, remuneration, or reimbursement from, or have any recourse against an Enrollee who receives Covered Dental Services under this Agreement, except with respect to applicable deductibles and copayments. Provider further agrees that this provision shall survive the termination of this Agreement with respect to Covered Dental Services rendered prior to the termination of this Agreement.

ADP offers five different coverage plans. Plan One covers diagnostic & preventative care, Plan Two covers restorative care, and Plans Three through Five offers variations of comprehensive coverage. . The fiveplans provides one or more of the following services:

- Diagnostic
- Preventive
- Restorative
- Cosmetic Dentistry
- Orthodontics
- Oral Surgery
- Endodontics
- Periodontics
- Major Restorative
- Prosthodontics

Plan coverages are contingent on nonemergency services being rendered on the basis of dental necessity by the designated ADP dentist or on the referral of a designated dentist. Emergency dental care is available within the ADP service area from an enrollee's designated dentist or an alternative ADP dentist. The delivery of emergency services outside the designated dentist's service area is covered by the dental plan subject to certain conditions and limitations. ADP will directly reimburse the eligible person for actual costs incurred subject to a \$25 maximum.

ADP currently markets to groups only. ADP has marketing agreements with 88 agents in 43 separate agencies. Agents are paid commissions on each employer group for which

ADP has issued a policy. Commissions paid on new and renewal business are based on the following schedule:

<u>Commission</u>	<u>Subscriber Group Size</u>
12%	Groups of less than 25
10%	Groups of 25 to 49
7% (monthly premium is under \$10,000)	Groups of 50 or more
5% (monthly premium is over \$10,000)	Groups of 50 or more
6% (Achip Company)	Groups of less than 50
5% (Achip Company)	Groups of 50 to 99

ADP premium rates charged and capitation rates paid are developed by the board of directors based on analysis of market factors. The rates are reviewed by a financial consultant for reasonableness and are adjusted annually by the board of directors.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of six members. Three directors are elected annually to serve a two-year term. Officers for the board are elected at the board's annual meeting. The board members currently receive \$500 per month for serving on the board and the president receives \$850 per month.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
William Giswold, D.D.S. Madison, Wisconsin	Dentist	2002
Phillip Grimm, D.D.S. Madison, Wisconsin	Dentist	2001
Donald Pfahler, D.D.S. Madison, Wisconsin	Dentist	2001
Darryl Veit, D.D.S. Portage, Wisconsin	Dentist	2002
Greg Samuels, D.D.S. Madison, Wisconsin	Dentist	2002
Terrance Donnelly, D.D.S. Madison, Wisconsin	Dentist	2001

Officers of the LSHO

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	2001 Compensation
William Griswold, D.D.S. Madison, Wisconsin	President	\$850 per month
Don Pfahler, D.D.S. Madison, Wisconsin	Vice- President	\$500 per month
Darryl Veit, D.D.S. Portage, Wisconsin	Secretary	\$500 per month
Greg Samuels, D.D.S. Madsion, Wisconsin	Treasurer	\$500 per month
Thomas Choate, D.D.S. Madison, Wisconsin	Dental Director	\$850 per month

ADP has executed an administrative service agreement with SVA Diversified Services, Inc. (SVA), under which SVA agrees to provide management information systems, financial systems, capitation administration, provider and subscriber services, utilization and peer review, and office management services. SVA provides monthly financial, utilization, member profile, and billing reports, prepares and files requested documents with regulatory agencies, and compiles ADP's annual financial statement filed with the Office of the Commissioner of Insurance. SVA is paid a fee of 5.5% of the premiums billed each month.

The term of the agreement ran through December 31, 2000 and was amended to extend the agreement for one-year ending December 31, 2001. The agreement may be terminated by either party upon, written notice of at least 120 days prior to the anniversary date of the contract. In the event of default, which continues 30 days after notice of default is given, the other party may terminate the contract upon 10 days prior notice.

Financial Requirements

The financial requirements for an LSHO under s. Ins 3.52, Wis. Adm. Code, are as follows:

	Amount Required
1. Minimum capital or permanent surplus	Not less than \$75,000
2. Security deposit	Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the LSHO.
3. Compulsory surplus	Not less than the greater of: 3% of the premiums earned by the LSHO in the previous 12 months or \$75,000 The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the LSHO demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers.
4. Security surplus	The LSHO should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus.
5. Operating funds	Funds sufficient to finance any operating deficits in the business and to prevent impairment of the insurer's initial capital or permanent surplus or its compulsory surplus.

ADP is in compliance with this financial requirement and maintains a \$75,000 letter of credit on file with the Commissioner of Insurance.

An LSHO, which provides hospital services, must demonstrate that, in the event of insolvency, enrollees hospitalized on the date of insolvency will be covered until discharge. This does not apply to this LSHO.

The LSHO is provided with corporate insurance coverage under the contracts listed below:

Type of Coverage	Policy Limits
Directors' and officers' liability	\$1,000,000
Professional liability	\$1,000,000

The above coverages are offered through an insurer either licensed in Wisconsin or appearing on the Commissioner's current list of approved surplus lines insurers.

IV. FINANCIAL DATA

The following financial statements reflect the financial condition of the LSHO as reported in the December 31, 2000, annual statement to the commissioner of insurance. Also included in this section are schedules which reflect the growth of the LSHO for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

American Dental Plan of Wisconsin, Inc.
Assets, Liabilities and Net Worth
As of December 31, 2000

Assets:

Cash	\$157,862
Premiums receivable—net	23,056
Prepaid Insurance	<u>725</u>

Total Assets	<u>\$181,643</u>
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Liabilities:

Accounts payable	\$30,103
Unearned premiums	<u>42,648</u>

Total Liabilities	\$72,751
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Net Worth:

Common stock	99,000
Retained earnings/fund balance	<u>9,892</u>
Total net worth	<u>108,892</u>

Total Liabilities and Net Worth	<u>\$181,643</u>
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**American Dental Plan of Wisconsin, Inc.
Statement of Revenue and Expenses
For the Year 2000**

Revenues

Premium	\$2,492,862	
Investment	<u>15,937</u>	
Total revenue		<u>\$2,508,799</u>

Provider Expenses

Professional services	<u>\$2,172,453</u>	
Total provider expenses		2,172,453

Administrative Expenses:

Other	<u>336,006</u>	
Total administrative expenses		<u>336,006</u>

Total expenses		<u>2,508,459</u>
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Net Income/(Loss)		<u><u>\$340</u></u>
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American Dental Plan of Wisconsin, Inc.
Statement of Net Worth
As of December 31, 2000

Net worth, beginning of year	\$116,552
Decrease in common stock	(8,000)
Net income (loss)	<u>341</u>
Net worth, end of year	<u>\$108,893</u>

Growth of ADP

The following schedules reflect the growth of the LSHO during the examination period:

Year	Assets	Liabilities	Net Worth	Premium Earned	Medical Expenses Incurred	Net Income
1996	\$182,307	\$ 63,826	\$118,480	\$1,803,960	\$1,528,539	\$356
1997	213,515	101,479	112,036	2,014,034	1,727,349	556
1998	219,255	105,293	115,118	2,245,253	1,932,997	3,082
1999	222,176	105,624	116,552	2,400,951	2,085,491	3,434
2000	181,643	72,751	108,892	2,492,862	2,172,453	340

Enrollment for the years under examination:

Year	Members
1996	10,237
1997	11,192
1998	11,499
1999	11,857
2000	11,443

Assets decreased slightly over the five-year period under examination while liabilities increased by 14% to \$72,751. The company reported a decrease in net worth from 1996 to 2000 even though they have had five years of net income. The decrease in net worth is due to the company purchase of 20 shares of its outstanding common stock at \$1,000 per share. Purchasing of the common stock decreased net worth by the \$20,000. Total membership increased 12% to 11,443 members over the period 1996 through 2000.

Reconciliation of Net Worth per Examination

There were not any changes made to the company's December 31, 2000, net worth balance of \$108,892 due to the examination.

Examination Reclassifications

	Debit	Credit
Originally Issued Shares of Common Stock		\$2,000
Treasury Stock	<u>\$2,000</u>	<u> </u>
Total reclassifications	<u>\$2,000</u>	<u>\$2,000</u>

V. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the LSHO are as follows:

Financial:

1. Conflict of Interest—It is recommended that ADP adopt a procedure for disclosing potential conflicts of interest on an annual basis.

Action—The company complied with this recommendation

2. Contracts—It is recommended that ADP establish a procedure to ensure that the dental provider maintains and provides to ADP reasonable evidence of a policy of professional liability insurance in the amounts specified in the provider agreement.

Action—The company complied with this recommendation

3. Contracts—It is recommended that ADP establish a procedure to ensure that the agencies abide by their marketing agreements and submit certificates of insurance to ADP on an annual basis providing the minimum limits of insurance with acceptable insurers and that these certificates contain the provision that coverage afforded under the policies will not be canceled until at least a 30-day prior written notice has been given to ADP.

Action—The company complied with this recommendation

4. Contracts—It is recommended that ADP establish a procedure to ensure that all contracts are properly signed, dated, and fully executed.

Action—The company complied with this recommendation

Summary of Current Examination Results

Management and Control

The examiners reviewed the maintenance of the board of directors meeting minutes and the annual meeting minutes. The review consisted of reviewing who maintained the minutes, what information was included in the minutes, attendance, and if the person maintaining the minutes also signed off on them. It was noted that the company's administrator maintains both the annual meeting minutes and board of directors' meeting minutes, but did not sign off on the meeting minutes in a number of cases. Signing off by the person(s) responsible for maintaining the minutes ensures that the information contained in the minutes is complete and reliable. It is recommended that the company, have the person(s) responsible maintaining the BOD meeting minutes and annual meeting minutes also sign off on them in accordance with s. 611.51(9), Wis. Stat.

It was also noted, while reviewing annual meeting minutes maintenance, that attendance was not recorded for the past two consecutive years. It is recommended that the company maintains and records attendance of voting members in attendance at annual meetings in accordance to s. 611.51(9), Wis. Stat.

Two of the company's directors' biographical sketches were not filed with the Office of the Commissioner of Insurance. It is recommended that the company file all new directors' biographical sketches with the Office of the Commissioner of Insurance in accordance with s. 611.54 (1)(a), Wis. Stat.

Capital and Surplus

The examiners' review of the company's common stock equity consisted of the reconciliation of book entries to record common stock and treasury stock. It was noted that the original common stock shares outstanding were 121 but the company's journal entry showed 119 shares. The difference was due to the company debiting common stock equity when they should have debited treasury stock when recording the purchase of two shares of their common stock back earlier in the year. The proper recording of this transaction would cause the treasury stock balance to increase from 20 shares to 22 shares and the original share of issued common stock

to stay at 121. The difference of the two balances is the current number of outstanding shares, which are 99 shares. The mistake however did not affect the company's equity balance. An examination reclassification was made concerning this issue. It is recommended that the company's records properly reflect the number of shares of common stock originally issued and the current number of treasury stock in their possession.

VI. CONCLUSION

The examination of American Dental Plan of Wisconsin, Inc. resulted in four recommendations, no suggestions, no adjustments to equity, and one reclassification. A majority of the recommendations dealt with management and control improvements. The company complied with all prior recommendations. Overall the company has been profitable in the dental benefit plan industry.

The company's assets remained steady over the period under examination, while their net worth decreased by 8% to \$108,892. Earned premiums and incurred medical expenses increased significantly by 38% and 42% respectively. The company has recorded seven straight years of profitability. Enrollment increased about 12% in the five-year period under review to 11,443 members.

VII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - Management and Control—It is recommended that the company, have the person(s) responsible for maintaining the BOD meeting minutes and annual meeting minutes also sign off on them in accordance with s. 611.51(9), Wis. Stat.
2. Page 17 - Management and Control—It is recommended that the company maintains and records attendance of voting members in attendance at annual meetings in accordance to s. 611.51(9), Wis. Stat.
3. Page 17 - Management and Control—It is recommended that the company file all new directors' biographical sketches with the Office of the Commissioner of Insurance in accordance with s. 611.54(1)(a), Wis. Stat.
4. Page 18 - Capital and Surplus—It is recommended that the company's records properly reflect the number of shares of common stock originally issued and the current number of treasury stock in their possession.

VIII. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the LSHO are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Sarah Salmon	Insurance Financial Examiner

Respectfully submitted,

John Litweiler
Examiner-in-Charge
Bureau of Financial Analysis and Examinations